

Powerex Comments on Spring Imbalance Capacity Acquisitions and Related Transmission Policies

Powerex appreciates the opportunity to comment on BPA's INC reserves acquisition strategy principles and transmission policies regarding delivery of reserves acquired from third parties. The discussion at the October 17, 2014 Generation Inputs Workshop was extremely helpful in explaining the options BPA is considering.

Powerex commends BPA for its efforts and for its solicitation of input on how to utilize its Spring acquisition budget in a cost-effective fashion, not only for the BP-16 rate period, but also for Spring 2015.

Powerex assesses BPA's acquisition strategy from two perspectives: (i) first, as a potential supplier of reliable and competitively-priced reserves; and (ii) as a major transmission customer concerned with the potential financial impact of BPA's acquisition practices on Transmission Reserves, if the Annual Budget is exceeded. Powerex believes that BPA's willingness to purchase ahead for the Spring Months will be materially helpful in assisting BPA to operate within the Annual Budget, without unduly impacting Transmission Reserves. But Powerex urges BPA to be flexible in its approach to forward purchases, to maximize its ability to identify and take advantage of economically favorable opportunities that may be available in the marketplace.

A. BPA Should Be Flexible in its Approach to Forward Purchases

BPA at the October 17 Workshop discussed a three-stage approach to acquisition of INC reserves for a portion of the Spring Months (late April, May and June). Under this approach, BPA would issue an RFO for at least one purchase during the Fall period (subject to resolution of related transmission policy issues discussed in Powerex's comments below). BPA would issue another RFO during the late Winter period. These two purchase periods "would have the objective of taking 200 MW or more off the table before the end of March." Once BPA reaches the Spring period, it will consider weekly acquisitions and application of a modified version of the preschedule process used in Spring 2014.

Powerex urges BPA to be flexible in framing its RFOs – particularly the RFO in the Fall period, which is likely to yield the most attractive options. As Powerex has made clear in prior discussions, the longer the lead time, the greater the likelihood of higher volumes at a more favorable price. In order to fully assess the full range of available supply options, BPA should not box itself in with an overly prescriptive RFO. Rather, the RFO should afford both temporal and volumetric flexibility for suppliers to submit bids tailored as to price, volume, duration, transmission terms and other relevant factors.

BPA at the October 17 workshop did not foreclose the possibility of acquiring all of its forward purchases in the first RFO, and should keep an open mind in that regard. Moreover, BPA should also not foreclose itself from purchasing reserves outside of its

two RFO processes, if attractively priced reserves are available and BPA believes that it is economic and prudent to acquire such reserves at that time.

Powerex appreciates that BPA initially wants to maintain its flexibility regarding purchases for the duration of procurement in the Spring period. However, BPA should not foreclose suppliers from submitting bids for the entire potential Spring freshet period - from the beginning of April until mid-July - since it is entirely possible that a supply package covering the full period could be superior to shorter term monthly, weekly or preschedule purchases from both a price and reliability standpoint (e.g., if a supplier were willing to commit a hydropower generation unit to supporting BPA's INC purchases, but the commitment would need to cover all of the potential Spring freshet period).

B. Powerex Supports Modification of BPA's Existing Transmission Policies

At the October 17 Workshop, BPA laid out two options as potential solutions to facilitate transmission over the interties of forward purchases of reserves from third-party suppliers. Option 1 would allow third-party suppliers or Power Services to redirect existing TSRs to deliver committed reserves. Option 2 would enable BPA to acquire balancing capacity prior to being able to reserve firm transmission for delivery (outside the competition window). Powerex believes these two options are not mutually exclusive and supports a combination of the two, in a manner that will appropriately allocate transmission risks.

Specifically, BPA, in its forward purchases of reserves, should commit contractually to use commercially reasonable efforts to acquire transmission on its own behalf prior to the delivery day. But in the event BPA's efforts are unavailing, the supplier should be permitted to redirect its firm transmission rights to effect delivery of the reserves, with BPA reimbursing the supplier for such transmission costs, at the long-term firm transmission rate. Suppliers should also be given the flexibility to include a commitment to provide redirected firm transmission rights (with recovery of associated transmission costs) as a backstop transmission service element of their bids in response to BPA's RFOs, to give BPA assurance that the reserves purchased will be deliverable regardless of whether BPA is successful in acquiring transmission on its own behalf.

Powerex believes that combining Options 1 and 2 will appropriately mitigate transmission risk at the time of the contract, by providing a necessary transmission service backstop, and by clarifying who will bear transmission costs if BPA cannot acquire transmission in its own right. This modification of BPA's existing transmission policies will facilitate BPA's desire to issue RFOs more than 30 days in advance of delivery, and will enhance opportunities for BPA to acquire reserves on a forward basis on favorable terms.

CONCLUSION

Powerex encourages BPA to implement an acquisition strategy consistent with these comments as soon as possible, to facilitate the most economic forward purchases for Spring 2015 as well as the BP-16 rate period.